IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

No. 20254

VISUAL ART INDUSTRIES, INC., and
THE MEYERCORD CO.,

Plaintiffs-Appellants,

v.

ISTANTYPE, INC., MICO-TYPE, INC., MICO-TAPE, INC., MICHAEL'S ARTISTS AND ENGINEERING SUPPLIES, INC., SOLOMON SACHS and ROBERT SACHS,

Defendants-Appellees.

No. 20255

VISUAL ART INDUSTRIES, INC.,

Plaintiff-Appellant,

v.

POLYCRAFT, INC. and NONA JACKSON,

Defendants-Appellees.

MAIN BRIEF FOR APPELLANTS

FILED
JAN 7 1966
E. WILSON, Clerk

MORRIS RELSON
405 Lexington Avenue
New York, N. Y. 10017

DONALD C. RUSSELL
417 South Hill Street
Los Angeles, California 90019
Attorneys for Appellants

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Nature of the Case and Proceedings Below

This is an appeal from a judgment (entitled "Order Granting Summary Judgment", R. 830)* entered May 11, 1965 in a patent and trademark infringement case, granting defendants' motion for summary judgment as to the patent aspects, based on plaintiffs' alleged misuse of the patent in suit by two sales agreements. This case essentially raises the question of whether otherwise proper exclusive-dealing sales agreements are made improper solely by the happenstance that some of the products are patented, particularly where the patent rights are held by neither party to the agreement.

These are two consolidated civil actions.

The first (No. 64-166-FW) is for patent and trademark infringement and related unfair competition, brought on February 6, 1964 by an exclusive patent licensee, Visual Art Industries, Inc. against a pair of individuals (Robert and Solomon Sachs) and a group of corporations (Instantype, Inc., Mico-Type, Inc., Mico-Tape, Inc. and Michael's Engineering and Artists Supplies, Inc.) of which the individuals are principals and which sell the infringing product (R. 2-4). The usual damages and injunctive relief were sought (R. 8-9).

After some discovery, it was found that the infringing product was made by another, and the second action (No. 64-806-FW) was brought on June 17, 1964 by the same plaintiff for patent and trademark infringement against Polycraft, Inc. and its principal, Nona Jackson (who pro-

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* R—refers to the indicated page of the photocopied record on appeal. The Court's attention is directed to appellees' unwarranted designation of the entire record below (R. 857), containing hundreds of pages of material not concerned in any way with the summary judgment proceeding under review here.

duce the accused products for sale by the first group of defendants) on the same patent, for similar relief (R. 859-66).*

In the first action, the patent owner, The Meyercord Company, was joined as a plaintiff, on November 9, 1964 (R. 361).

The two actions were consolidated on November 20, 1964 (R. 377).

On February 8, 1965, defendants moved for summary judgment dismissing the two complaints as to the patent causes of action, on the ground that the patent was unenforceable because of misuse (R. 546, 548).

The motion was granted by order entered May 11, 1965 (R. 830). A motion to modify the order was filed May 17, 1965 (R. 841), and denied (R. 849). Notice of appeal was filed on June 7, 1965 (R. 852).

Jurisdiction

The jurisdiction of the District Court exists under 28 USC 1338. It is admitted by the answers (R. 45, par. I; R. 870, par. I).

Jurisdiction of this Court exists under 28 USC 1292 (a)(1).

STATEMENT OF THE CASE

Statement of Facts

The holding of misuse forming the subject of the present appeal is based solely upon two agreements, the Visual-Brown Agreement of April 15, 1963 (R. 563) and the Letraset-Visual Agreement of June 19, 1963 (R. 569). To

* Both actions were initially assigned to Judge Pierson Hall, but were transferred to Judge Francis C. Whelan on his elevation to the bench in October, 1964.

understand these agreements it is necessary to show the general background of the present situation.

In late 1960, at the instigation of Arthur Brown & Bro., Inc. (a New York corporation), Letraset, Ltd. of London, England, undertook the production of certain dry transfer products, for which Brown then became the exclusive sales agent for the United States. This arrangement was evidenced by a letter agreement of April 3, 1961, by which Letraset appointed Brown the "sole selling agents, importers and distributors in the United States and Canada for the complete line of Letraset Dry Instant Lettering and any variation of this dry transfer product" (R. 561).

The dry transfer products referred to are essentially transparent sheets carrying letters or other symbols, which can be transferred from the carrier sheet to a receiving surface merely by placing the transparent sheet over the receiving surface with the symbol in proper position, and then rubbing the overlying carrier sheet with a stylus, which causes the symbol to transfer to the receiving surface. By successive transfer operations, titles, legends, symbols and notations can be composed, suitable for advertising or the like. Brown sold these goods under the trademark "Instant Lettering" for which it owned the trademark registration.

This 1961 agreement was an ordinary commercial distributorship agreement, with the usual commercial provisions. It had no patent provisions at all. It was clearly not a patent agreement, and was not motivated by any patent. It should be particularly noted that the exclusive selling rights to the dry transfer products were thus vested in Brown.

At the time that Letraset began its production of Instant Lettering sheets in 1960, neither Letraset nor Brown had any rights under the Wittgren patent here in suit. That patent was owned entirely by The Meyercord Company of Chicago, Illinois. In July, 1962, however, Meyercord worked out an agreement with Letraset by which Letraset became an exclusive licensee under the patent, in a limited field defined in the agreement between them, dated July 20, 1962 (R. 556). This limited field includes the dry transfer sheets which are the subject of the present litigation. The Wittgren patent covers some (but not all*) of the Letraset products which were the subject of the Letraset-Brown agency agreement of April 3, 1961.

In early 1963 Brown sold its business as sole selling agent and distributor for Letraset dry transfer products, to plaintiff Visual Art Industries, Inc., by the agreement of April 15, 1963 (R. 563), one of the two agreements challenged here.

Just before this Visual-Brown agreement of April 15, 1963 the situation was as follows:

1. Letraset (the manufacturer) was a limited exclusive licensee of Meyercord under the Wittgren patent involved here.

2. Brown was neither a licensee nor owner of any rights under the patent, but merely a reseller of certain products made by Letraset, and the exclusive distributor of such products for the United States.

3. Visual Art was also neither licensee nor owner, but merely a proposed substitute for Brown.

Obviously, no impropriety or inequity existed, and none is charged here by defendants, prior to the Visual-Brown agreement.

It might be noted for chronological completeness that the defendants' activities which led to the present suits began just before this time.

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* The patent covers the Instant Lettering dry transfer products.

For a period starting 1961, defendant Michael's had purchased the Letraset-made Instant Lettering sheets from Brown and had resold them as a dealer. In early 1963 the Messrs. Sachs, who control Michael's, undertook to enter the dry transfer field in competition with Brown (notwithstanding that Michael's continued until 1964 as a dealer selling Instant Lettering sheets).

In January, 1963, at the instigation of Sachs, defendant Polycraft began producing dry transfer sheets which were essentially copied from the Instant Lettering sheets, and other defendants began selling such sheets in February, 1963, under the trademark Instantype.* In March, 1963, the Messrs. Sachs reactivated an existing corporation owned by them, changing its name to Instantype, Inc. (a defendant here). Instantype, Inc., became the primary market source for Instantype sheets, which continued to be made by Polycraft, Inc. Defendant Michael's sold Instantype sheets simultaneously with Instant Lettering sheets until 1964, when it dropped Instant Lettering sheets and continued to sell Instantype sheets. These activities as to Instantype sheets led to the present actions for both patent and trademark infringement.

Returning to the challenged Visual-Brown agreement (R. 563), it was a customary sale-of-business transaction: Brown sold its exclusive sales agency to Visual by assigning the 1961 Letraset-Brown distributorship agreement to Visual, and Visual became Letraset's exclusive sales agent in place of Brown.

As a separate part of the same document, Brown additionally agreed to act as a jobber or sub-distributor for the same products, downstream from Visual along the channel of distribution. In conjunction with this, these parties entered into what is essentially a "requirements" or "exclusive-dealing" agreement, that Visual would sell to

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pp. 51-2

* See ~~page 52~~ below.

Brown and Brown would buy from Visual all Brown's requirements of the type of products involved. This is the provision which the Court below mistakenly found to constitute *per se* a misuse of the Wittgren patent. It reads in full as follows (R. 566):

> "5. (c) So long as we [Brown] are acting as a jobber for you [Visual] hereunder, we agree that we shall not sell either as a jobber or retailer or otherwise manufacture or sell, directly or indirectly, any products similar to or competing with the Letraset products sold by you under the agreement with Letraset Limited;"

The "Letraset products" are whatever was made by Letraset and sold to Visual under the assigned 1961 Letraset-Brown agreement, independently of any patents.

As shown below, this agreement when entered into had no significant relationship to any patent. Neither Visual nor Brown then owned any patent rights, and neither acquired any under the agreement. No patents are mentioned in the agreement. The agreement is not based upon any patents, but only on *goods made* by Letraset. There is no grant in the agreement of any licenses under patents or any other patent rights. The term of the agreement is unrelated to the term of any patent. The agreement applied independently of even the existence of any patent.

In short, the Brown-Visual jobber agreement was a simple commercial agreement, of a customary and proper "exclusive-dealing" type. It was not a patent agreement, but merely substituted Visual for Brown in the 1961 agreement. Visual thereby acquired the exclusive selling rights to the Letraset dry transfer products.

Subsequently, on June 19, 1963 Letraset and Visual modified the 1961 agreement. This modification is the second agreement mistakenly held below to constitute misuse *per se*. It appears at R. 569.

By this agreement Letraset acquiesced in the assignment of the 1961 Letraset-Brown agreement to Visual and also confirmed that Visual (rather than Brown) was Letraset's exclusive agent for the sale of Letraset products in the United States and Canada. The range of products was broadened to include what was called "basic agency products",* meaning not only the same Letraset-manufactured Instant Lettering dry transfer products previously included, but also further products called Letraset Instant Dry Color products, and which are *not* covered by the Wittgren patent in suit. It further gave Visual certain options under so-called "additional agency products"** and also contained additional appropriate commercial provisions. Significantly, Visual received no rights as to patented dry transfer products in addition to those which Visual already had.

Letraset, by this agreement, essentially continued leaving its entire U. S. business in these products in the hands of Visual. In explicit recognition of this and of Visual's continued obligations as exclusive sales agent,*** paragraph 2 provided (R. 570):

> "Visual will use its best endeavors to obtain orders for and generally promote the sale of the basic agency products in the territory."

Pursuant to this "best endeavors" clause, and in further recognition of the good faith required of an *exclusive*

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* The "basic agency products" were defined as products made and sold by Letraset and called Letraset Instant Lettering and Letraset Instant Dry Color for use and application in the graphic arts business (R. 569).

** These are defined as other products being developed by Letraset "related to or derived from the processes used in the manufacture of the basic agency products but having different use and application outside the graphic arts business" and "other products based on different technical processes and for use in the graphic arts and other industries" (R. 569).

*** See pages 31 to 32 below.

agent, the parties entered into an exclusive-dealing arrangement. It was agreed in Paragraph 8 (R. 573) that

> "FROM the date hereof until the expiration of two years after the termination of this Agreement for any cause whatsoever Visual or any corporation controlled by it shall not in the territory [United States and Canada] without the prior written consent of Letraset sell, manufacture or be in any way concerned in the wholesale or retail sale or manufacture of any products directly competing with the basic agency products nor be interested directly or indirectly in any business, firm, company, or undertaking engaged in manufacturing or selling products which so compete or are likely to do so."

This Paragraph 8 is the sole basis in this agreement for the erroneous holding of misuse by the Court below.

It must be noted that here, too, no patents are mentioned or are directly or indirectly concerned in this agreement. Visual (which has been here charged with the patent misuse) held no patent rights, and received none by this agreement, which merely continued its status as successor to Brown under the prior 1963 agreement. The agreement concerns only the purchase and sale of products made by Letraset, and is not based upon any patents. There is no grant of any rights under any patents. As in the Visual-Brown agreement, the Letraset-Visual agreement applied independently of the existence of any patent, and had no significant relationship to any patent.

Thus, Visual is held to have committed patent misuse by the Visual-Brown agreement and by the Letraset-Visual agreement, even though it held no patent rights at the time of either agreement, and obtained and granted no patent rights by either agreement.

At a later time, and with no relation to these clauses held below to be misuse, Letraset transferred to Visual all of Letraset's rights under the Wittgren patent, by assigning to Visual the 1962 Letraset-Meyercord agreement. This was done by a second Letraset-Visual agreement, dated January 13, 1964 (R. 578). This agreement was made because Visual, by its geographical location and closer contact to the U. S. market, was in a more favorable position than Letraset to detect and take action against infringement of the patent (R. 578).

Thus, in January, 1964, some nine months after the Visual-Brown agreement was made (and independently of it) and some seven months after the Letraset-Visual agreement was made (and similarly independently of it), Visual for the first time, and by an entirely separate transaction, became owner of rights under the patent in suit. Not only the intervening time period, but also the nature of the transactions, clearly show that the original Visual-Brown and Letraset-Visual agreements were entered into independently of the patent.

The challenged provisions of both agreements have never been enforced (R. 681, 778). Actually, Brown itself with Visual's (and also Letraset's) knowledge and acquiescence had abrogated the challenged provision as to it by handling competing products (R. 681-2). Accordingly, on October 30, 1964* Visual voluntarily relinquished the challenged Paragraph 5(c) of the agreement with Brown, and on March 24, 1965 Letraset similarly voluntarily relinquished the challenged Paragraph 8 of its agreement with Visual, so that these clauses have had no effect since before the decision below.

The Holding Below

The District Court, solely on the facts set forth above, concluded that the making of the Visual-Brown and Letra-

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* This was before the motion for summary judgment under review here.

set-Visual agreements constituted patent misuse, holding that *both* Meyercord and Visual misused the patent in suit "during the periods that Paragraphs 5(c) and 8 were in effect, and were misusing said Patent on the dates the complaints in both actions were filed" (Finding XXII, R. 836; Conclusion XXV, R. 837). The Court below went on to grant summary judgment dismissing the causes of action for patent infringement "as of the date of the filing of said actions respectively", with leave to file supplemental complaints, solely for the period following the filing of the original complaints (Conclusion XXVI, R. 837).

Unfortunately, the Court below did not write any opinion, or give this Court the benefit of his reasoning leading to such a conclusion, which is submitted to be clearly erroneous and contrary to established law, as discussed below.

SPECIFICATION OF ERRORS

Appellants specify Finding of Fact XXII and Conclusions of Law XXIV, XXV and XXVI as error. These are (R. 836-7):

Finding XXII

> Plaintiffs, The Meyercord Co. and Visual Art Industries, Inc., misused said Patent during the periods that Paragraphs 5(c) and 8 were in effect and were misusing said Patent on the dates the complaints in both actions were filed. This paragraph is not to be construed as a finding that said plaintiffs did not misuse U. S. Patent No. 2,558,803 during any other period or periods.

Conclusion XXIV

> Misuse is determined on the date of filing the Complaint. *General Excavator Company* v. *Keystone Driller Company,* 62 F. 2d 48, 16 U.S.P.Q. 269, 270 (6th Cir. 1932), *aff'd* 290 U. S. 240, 19 U.S.P.Q. 28 (1933).

Conclusion XXV

Plaintiffs, The Meyercord Co. and Visual Art Industries, Inc., misused Wittgren U. S. Patent No. 2,558,803 during the periods that Paragraphs 5(c) and 8 were in effect and were misusing said Patent on the dates the complaints in both actions were filed. *McCullough* v. *Kammerer Corp.,* 166 F. 2d 759, 76 USPQ 503 (9th Cir. 1948), *cert. den.* 335 U. S. 813, 79 USPQ 454 (1948); *Berlenbach* v. *Anderson & Thompson Ski Co., Inc.,* 329 F. 2d 782, 141 USPQ 84 (9th Cir. 1964), *cert. den.* 379 U. S. 830, 143 USPQ 464 (1964); *Waco-Porter Corp.* v. *Tubular Structures Corp.,* 222 F. Supp. 332, 139 USPQ 37 (S. D. Calif. 1963); *Chamberlin* v. *Clark Bros.,* 96 F. Supp. 498, 896 USPQ 49 (S. D. Calif. 1961).

Conclusion XXVI

Defendants in both cases are entitled to summary judgment on the causes of action for infringement of Wittgren U. S. Patent No. 2,558,803, which causes are set forth in Paragraphs I to VII, inclusive, of Civil Action No. 64-166-FW and in Paragraphs I to VII, inclusive, of Civil Action No. 64-806-FW for alleged infringement by defendants of said Patent as of the date of the filing of said actions respectively, *Berlenbach* v. *Anderson & Thompson Ski Co., Inc., supra.*

Plaintiffs-appellants also specify as error the portions of the order entered May 11, 1965 which decreed that defendants' Motion for Summary Judgment on the causes of action for patent infringement be granted (R. 830-1).

SUMMARY OF ARGUMENT

1. For patent misuse to exist, there must be a significant relationship between the patent in suit and the challenged conduct; that is, the patent must be used as the active instrument for inducing or exacting the challenged conduct, and that conduct must inequitably extend a patent monopoly.

2. Exclusive-dealing agreements, *per se,* are lawful. No precedent has gone so far as to suggest that misuse of patent occurs merely because some of the goods forming the subject of such an agreement happened to be patented goods.

3. The Visual-Brown agreement did not constitute misuse of the patent in suit, because neither party to the agreement controlled the patent and neither party had any patent monopoly which could be extended by the agreement. The agreement had no significant relationship to the patent, but instead was made independently of the patent. It was an ordinary, lawful, exclusive-dealing agreement. The authorities cited by the lower court in support of the misuse holding are all distinguishable because they involved an extension of the monopoly held by one of the parties, and involved active use of a patent by demanding a non-competing clause as a condition for granting a patent license.

4. The Letraset-Visual agreement did not constitute misuse for similar reasons:

A. It was a lawful and proper requirements agreement, spelling out the duty imposed by equity upon an exclusive agent.

B. The patent played no part in making the agreement or in the provisions of the agreement. The agreement was independent of and certainly not significantly related to the patent; and it did not extend any patent monopoly.

C. The equitable balance favors this agreement. To hold misuse would be to discriminate against a small patent owner by penalizing it for doing what a non-owner or a larger company is free to do. Letraset and Visual are as inter-dependent as two parts of a single company and should be treated as such.

5. Any possible misuse had ended before the suits were started, by the later independent transfer of the patent rights to Visual in January 1964, or at least had ended by the voluntary relinquishment of the challenged clauses and by their non-enforcement, before the decision below.

6. Dismissal of the complaint was improper as to infringement before the accused agreements were made, even if the agreements should be held to constitute misuse.

7. Regardless of other rulings by the Court, plaintiff Meyercord was innocent of any misuse, since it did not participate in any way in the acts accused here.

ARGUMENT

This is an extreme case, and one believed to be of first impression. It stretches the doctrine of misuse of patents beyond any prior case.

In no other known case has a conventional, lawful, purely commercial exclusive-dealing sales agreement been held improper solely because of the happenstance that some of the products forming its subject matter were patented, and in particular under a patent controlled by none of the parties to the agreement.

The present situation involves no charge of illegality, fraud, deceit, misrepresentation, anti-trust violation, or other inequity.

The only issue here is whether the patent here in suit is rendered impotent against an infringer by the exclusive-dealing clauses here, *per se.*

I. Exclusive-Dealing Agreements Are Proper And Lawful

We start with the fundamental proposition that there is no impropriety in exclusive-dealing clauses *per se.* This Court recently said:

> "We know of no case that holds that contracts between a manufacturer and distributors of his product whereby the latter agree to act as exclusive distributors, that is, to handle his product alone, are illegal *per se" Walker Dist. Co.* v. *Lucky Lager Brewing Co.,* 323 F. 2d 1, 7 (1963).

This statement of law directly applies to the contract between Letraset as manufacturer and Visual as exclusive distributor. It obviously applies equally to a contract beween a national distributor (Visual) and its jobber Brown).

To the same effect is *Pick Mfg. Co.* v. *General Motors 'orp.*, 299 U. S. 3; *Tampa Elec. Co.* v. *Nashville Coal Co.*, 65 U. S. 320.

The issue here is whether such clauses *per se* constitute nisuse of the patent in suit, under the facts here.

The District Court has not given us the benefit of his easoning to support the conclusion of misuse. After statng the bare uncontroverted facts in Findings I to XXI, a eap is made to the ultimate conclusion of misuse in Finding XII. The only hints as to the underlying reasoning lie in 'inding XXII and Conclusion XXV, which state that it is 'aragraph 5(c) of the Visual-Brown agreement and Pararaph 8 of the Letraset-Visual agreement which constitute he misuse, from the time those agreements were made, and n the citation in Conclusion XXV of the *Berlenbach, Mc-'ullough, Waco-Porter* and *Chamberlin* cases.

We show below that the clauses of neither of these agreeaents constitutes *any* use, much less misuse, of the patent n suit, and that the cited decisions are inapposite and inaplicable.

We first discuss generally the doctrine of patent misuse, o show that, for patent misuse to exist, there must be *a ignificant relationship* between the patent and the chalenged conduct so that, in effect, the patent must be the ctive instrument for exacting the challenged clauses, and here must also be an extension of a patent monopoly.

I. The Misuse Doctrine Requires That The Accused Activity Be Significantly Related To The Patent

The doctrine of misuse is an equitable one, made by the 'ourts, and is not based upon any statute.

This Court has pointed out that in misuse cases the effects of a plaintiff's acts on the public must be weighed against the defendant's wrong upon the plaintiff:

> "In the interests of right and justice the court should not automatically condone the defendant's infractions because the plaintiff is also blameworthy, thereby leaving two wrongs unremedied and increasing the injury to the public. Rather **the court must weigh the substance of the right** asserted by plaintiff **against the transgression** which, it is contended, serves to foreclose that right. The **relative extent** of each party's wrong upon the other and upon the public **should be taken into account, and an equitable balance struck.**" *Republic Molding Corp.* v. *B. W. Photo Utilities,* 319 F. 2d 347, 350 (1963).*

In all misuse cases, *the patent* is *used* to exact some commitment which the patent grant itself does not warrant, to attain thereby an extension of patent monopoly. *Both* the *use* of the patent and the *extension* of the monopoly are requisites. Thus a patent gives its owner only the right to exclude others from the practice of the patented invention, that is, from making, using or selling it (35 U.S.C. 154, 271a). This right to exclude is waived by a license, which in effect is a grant by the patent owner yielding up to the licensee some portion of the patent monopoly.** Misuse occurs where such a license is condi-

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* All emphasis added in this brief unless otherwise noted.

** Such a license grant must be distinguished from a mere sale of physical goods. When a patent owner sells goods, such *goods* are *discharged* from any liability under his patent, by operation of law. "The article passes . . . without the limit of the monopoly" (*Adams* v. *Burks,* 84 U. S. 453, 1873; see also Deller's *Walker on Patents,* 2nd Ed. Vol. 4, Sec. 386). No part of the patent monopoly is granted to any person by such a sale; the *goods* are invested with the immunity and the purchaser merely becomes entitled to use the specific goods purchased, but no others. The immunity is essentially *in rem,* and is not created by any agreement. See also page 39.

tioned upon and used to exact a commitment from the licensee which is not justified by the patent monopoly itself. Classic examples are licensing only upon the condition that the licensee maintain prices set by the licensor, or upon the condition that the licensee buy unpatented goods from the licensor only.

In each such instance of misuse, a license is granted by the patent owner only upon a condition which is beyond the patent grant and which produces a monopoly greater than that of the patent. The condition is tied into the license, and it is this *use of the patent* as a lever to obtain an advantage contrary to public policy which is deemed inequitable conduct, punishable by depriving the patent owner of the power to enforce his patent unless and until the misuse is discontinued.

By the same token, acts by a patent owner, *unrelated or insubstantially related to the patent,* are never ground for such deprivation, even though such acts may otherwise be wrongful. To sustain such a defense would unfairly punish a patentee, not for his wrong, but merely because he happens to own a patent, and would provide an undeserved shelter for a patent infringer.

Even anti-trust law violation is not deemed a sufficient defense, *per se,* to patent infringement. As stated by the Attorney General's National Committee to Study the Antitrust Laws, in its Report of March 31, 1955, at page 249:

> "Antitrust violation should be considered a defense to a patent infringement action **only when it is shown that the patent in suit is integral to the violation** and that the grant of customary patent relief conflicts with antitrust goals."

The Report went on to say at page 251 that the misuse doctrine "should extend **only** to those cases where a realistic analysis shows that the patent itself **significantly contributes** to the practice under attack", and that the conduct of the patentee *in relation to the patent* should not be confused with his conduct with reference to other matters.

Thus, following this principle, misuse of one patent is no defense to a charge of infringement of a different patent, even where a license on both patents came from the same agreement (*Apex Elec. Mfg. Co.* v. *Altorfer Bros.*, 238 F. 2d 867, 871-3, 7 Cir. 1956). Improper activity as to foreign patents is no defense to infringing U. S. patents, even on the very same inventions (*Sperry Prod., Inc.* v. *Aluminum Co. of Am.*, 171 F. Supp. 901, 940, D. C. Ohio, reversed in part on other grounds, 285 F. 2d 911, 6 Cir. 1960).

This principle has been adopted by this Circuit. In *Republic Molding Corp.* v. *B. W. Photo Utilities*, 319 F. 2d 347 (1963), this Court said at page 349:

> "What does seem clear is that misconduct in the abstract, **unrelated to the claim to which it is asserted as a defense**, does not constitute unclean hands. The concept invoking the denial of relief is not intended to serve as punishment for extraneous transgressions, but instead is based upon 'considerations that make for the advancement of right and justice.' Keystone Driller Company v. General Excavator Company (1933), 290 U. S. 240, 245, 54 S. Ct. 146, 147, 78 L. Ed. 293.
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> "What is material is not that the plaintiff's hands are dirty, but that he dirtied them **in acquiring the right he now asserts,* or that the manner of dirtying renders inequitable the assertion of such rights** against the defendant. As Professor Chafee suggests (p. 1072),** we should not by this doctrine create a rule comparable to that by which a careless motorist would

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* Note that here there is no charge of "dirtying hands" in plaintiff's acquiring the patent rights now asserted.

** Referring to 47 Michigan Law Review (1949).

be 'able to defend the subsequent personal injury suit by proving that the pedestrian had beaten his wife before leaving his home'."

Following this *Republic Molding* decision, in *Geo. W. Ashlock Co.* v. *Atlas-Pacific Engineering Co.,* 136 USPQ 339 (ND Cal. 1963)* the District Court said at page 343, in denying summary judgment for alleged misuse:

> "The better rule appears to be that the doctrine of misuse should extend only to those cases where a realistic analysis shows that **the patent itself significantly contributes to the practice** under attack."

After trial, the District Court rejected the misuse defense on its merits (225 F. Supp. 205, 219) and this Court affirmed (339 F. 2d 288), cert. den. Oct. 11, 1965, —— U. S. ——), quoting approvingly the lower court's statement that the evidence did not show "a significant relationship" between the patent and plaintiff's practices sufficient to sustain the defendant's position that that practice was used to extend the patent monopoly (339 F. 2d at 289, fn. 1). This decision is discussed in more detail below.

Accordingly, it is established law in this Circuit that *a "significant relationship" must exist between the accused conduct and the patent in suit* and that an extension of the patent monopoly *must be caused by that conduct,* before a misuse defense can be sustained.** The basic requirement to invoke the drastic consequences of the misuse doctrine is that there be a *significant use of the patent* in a manner sufficiently inequitable and in violation of public policy to supersede the established interest of the public in fostering the progress of science and the useful arts by upholding the patent laws and the similar interest in preventing usurpation of a patented invention by a piratical infringer.

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* No Federal Reporter citation known.

** The District Court here made no finding or holding as to any extension of a patent monopoly or as to any significant relationship.

In two instances this Court has found a sufficiently "significant relationship", and hence misuse, where a license under a patent was granted only on the condition that the licensee refrain from making or selling a competing product. These were *McCullough* v. *Kammerer Corp.,* 166 F. 2d 759 (1948) and *Berlenbach* v. *Anderson & Thompson Ski Co.,* 329 F. 2d 782 (1964). These two decisions, plus two District Court decisions based upon *McCullough,* were cited by the Court below as basis for the judgment appealed from here. All of these decisions are based upon facts different in essential respects from those present here, and these decisions are inapplicable here.

In *McCullough* v. *Kammerer Corp.,* a patent owner and its licensee joined to sue an infringer of the patent in question. In an agreement between the patent owner and the licensee, the licensee had been given an exclusive license under the patent to make and use the patented pipe cutter, on the express condition that the licensee would not make or use or rent any competitive device. The patent owner went further and additionally bound itself not to make, sell, rent, license or use either the patented device or competitive devices.

This Court found that the licensee was a very large company with world-wide business, and had a monopoly of the pipe-cutting field, all the other pipe cutters having been supplanted by the patented one. Under these circumstances, this Court in a majority opinion expressly found that the monopoly of the patent in suit was extended by the agreement, in a substantial way. It found that *such use of the patent* to suppress competition was against public interest. In that case the patent was *directly and actively used,* by exacting the offending condition *as consideration for grant of a license under the patent.* It was this express use of the patent to extend the patent monopoly which was held to be misuse.

The other decisions relied upon in the lower court here are based upon and follow this *McCullough* case. Each case involved grant of a patent license, where the patent was licensed only upon the condition that the licensee refrain from dealing in competitive products. Such licenses are, of course, a grant of part of the rights accorded by a patent, and in each case the patent was thereby the active instrument in exacting the offending restriction.

In *Chamberlin* v. *Clark Bros.,* 96 F. Supp. 498 (SD Calif. 1951), an exclusive licensee of the patent sued an infringer. The patent owner (not a party to the suit) had expressly granted to the licensee an exclusive and irrevocable license under the patent in suit, on the condition that the licensee would not lease, manufacture or sell any device competitive with the licensed device. The District Court held that this was patent misuse, based on the *McCullough* case. So far as is known, the case was not appealed.

This *Chamberlin* case is essentially the same as the *McCullough* case. Here again, *patent rights* were *licensed* as *consideration* for a restriction against competing with the *patented* product. The patent was the direct instrument for exacting the restriction. Moreover, here again it was the patent owner who exacted the condition.

In *Waco-Porter Corp.* v. *Tubular Structures Corp. of America,* 220 F. Supp. 724, modified at 222 F. Supp. 332 (SD Cal. 1963), there were several causes of action, including two for patent infringement (one for accounting and one for damages), brought by a patent owner against its former licensee. The plaintiff moved for a preliminary injunction to enjoin further acts of infringement of the two patents in suit. In opposition, the defendants urged that the provision in the previously terminated license agreement, that defendants might not handle products competitive with those of plaintiff, was misuse of the patents.

The District Court first held that such a defense was sustainable only if the anti-trust laws were violated, requiring a finding of substantial lessening of competition (not determinable by such a motion). On reconsideration, the District Court withdrew from that position, and held the defense insufficient because the restriction had been terminated previously (222 F. Supp. at 334).*

The District Court went on to consider other agreements still in effect on other distributors. It is not clear from the opinion what those agreements were, but presumably they were like the defendant's patent license, since the District Court refers to inclusion of the patented "speed lock device" (222 F. Supp. at 336). The District Court held that those agreements included provisions constituting an extension of the patent monopoly to unpatented articles (222 F. Supp. at 335) and denied the motion for preliminary injunction. To the extent this case may have involved any agreements which might be similar to those involved in the present case, there has been no ruling from this Court of Appeals on the propriety of the holding by the District Court.

All of the preceding three cases involved direct and express patent licenses, containing non-competing restrictions upon the licensee.

Berlenbach arose as a contempt proceeding in a patent infringement suit. The defense of misuse was raised on the basis of an earlier agreement between the patent owner (Berlenbach) and a third party (Northland), with a non-competing clause. Here, in form, the license agreement appeared to be a sales distributorship agreement. However, as this Court held, the agreement went far beyond a mere sales agreement. The invention of the patent was expressly referred to, and the agreement required Berlenbach to "take all necessary steps to patent and otherwise safeguard against any encroachment upon" the design of the product. Both the District Court and this Court found that the patent was an essential aspect of the transaction,

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* As shown below at pages ~~44-45~~ 45-46, the same situation exists here, and this decision is actually authority for reversal here.

and that the agreement constituted grant of a patent license, giving Northland the exclusive right to sell the patented invention, no matter by whom made. This was a sufficiently definite connection between the patent and the non-competing clause so as to constitute misuse, as in the *McCullough* case.

That connection was clear from the agreement itself. The agreement concerned solely the patented product, and was made with specific reference to the patent in suit. The patent was the framework of the entire agreement. The patent owner was required not only to take all steps for patenting the invention, but to enforce the patent against infringers, such as the defendant there. The very suit itself was thus the outgrowth of the agreement; the patent owner brought suit because he had promised to do so, in exchange for his licensee's agreement not to compete. The promise not to compete became the direct consideration for the undertaking to "safeguard against any encroachment", that is, to enforce the patent against infringers. This Court emphasized that undertaking in affirming that the agreement was a patent license, and hence there was a significant relationship to the patent, as in *McCullough,* warranting affirmance of the misuse holding.

Berlenbach was an extreme case. It held a putative sales agreement to be actually a patent license and not merely a sales agreement. On this basis, this Court applied the principle of the *McCullough* case. However, it is significant that there was no holding that *every* exclusive-dealing sales agreement comes under *McCullough.* Misuse was found only because of the presence of the provisions *beyond* the sales and exclusive-dealing provisions. These additional provisions specifically tied the agreement to the patent in question, and created the significant relationship to the patent.

In summary, in each situation relied upon by the District Court there was an agreement made by a party *who controlled and who had the right to enforce the patent.* In each situation a specific patent license was granted only upon condition that the licensee refrain from handling competing goods. This license constituted the significant relationship to the patent required for a holding of misuse. Absent such a relationship, no such holding is proper.

As is shown separately below, neither the Visual-Brown agreement nor the Letraset-Visual agreement had this or any other significant relationship to the patent in suit, and both were ordinary, lawful, exclusive-dealing sales agreements.

III. The Visual-Brown Agreement Did Not Constitute Misuse

As mentioned above, the basis for misuse in the Visual-Brown agreement urged on the District Court and accepted by him is solely Paragraph 5(c) of that agreement. The District Court in effect held that the misuse occurred in making this agreement.

It is submitted that the lower Court misinterpreted and misapplied the decisions of this Court, and overlooked vital distinctions in the facts of this case. In particular, the Court below failed to recognize that this was an ordinary exclusive-dealing sales agreement between a distributor and its customer, not involving a patent in any way, and that an agreement between two parties cannot be misuse of a patent controlled by neither one.

It appears so clear as hardly necessary to state, that a patent cannot be misused by a party who has no ownership interest in or control over the patent. No patent monopoly can be extended where there is no monopoly to extend. Yet here the lower Court fell into the error of holding that *Visual* and *Brown* misused *Letraset's* patent rights by making the Visual-Brown agreement, despite the indisputable fact that *neither one controlled* any part of the patent rights and *neither had any right to enforce* the patent.*

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* In April, 1963, it was Letraset which held the patent rights, which it had acquired from Meyercord in July, 1962.

The facts here are simple and clear: Visual bought Brown's exclusive sales agency for Letraset dry transfer products. What Brown sold to Visual was Brown's 1961 agreement with Letraset. That 1961 agreement was made before Letraset acquired any interest in the patent in suit, and it obviously transferred no patent rights to Brown. Brown thus had no patent rights to sell to Visual in 1963, and Visual acquired no patent rights from Brown.

To uphold misuse here would mean that a distributor (Visual) and a sub-distributor (Brown), or even a retailer, could entirely vitiate the patent position of their supplier (Letraset), without the supplier's consent or even knowledge, merely by making an ordinary lawful requirements or exclusive-dealing agreement.

The absurdity and inequity of this are self-evident. It necessarily follows that there was no inequity or violation of public policy in making this agreement and hence no misuse.

The only reasonable explanation we can give for this lapse on the part of the District Court is that he became confused by the later and independent transfer of the patent rights from Letraset to Visual. However, obviously this later transaction could not, *ex post facto,* create misuse where none existed initially.

This factor alone establishes reversible error in the holding of misuse.

In addition, regardless of who controlled the patent rights, the Visual-Brown agreement has no significant relationship to the patent, and cannot be a misuse of the patent.

The Agreement Has No Significant Relationship To The Patent

Thus, when Visual and Brown agreed (by the challenged Paragraph 5(c)) that Brown would handle Letraset products exclusively, neither Visual nor Brown held any patent rights. It is clear therefore that no patent rights were transferred by the agreement, and *a fortiori,* that the challenged provision was not exacted as a condition for grant of any patent rights, as is necessary for patent misuse.

The agreement was a purely commercial agreement, an ordinary exclusive-dealing sales distributorship agreement, held lawful and proper in *Walker* v. *Lucky Lager,* above.

The agreement had no relationship to any patent, much less a "significant" relationship. Neither of the parties to the agreement (Visual or Brown) controlled or was concerned with the patent in suit. Neither of the parties had the right to enforce the patent. The agreement was not motivated by any patent. None of its provisions concerned any patent or is affected one way or the other by even the existence of any patent.

Visual had no patent monopoly to extend and no patent monopoly of either party was extended by the agreement. The patent was simply not used at all in the agreement. It was certainly not an active instrument by which the challenged clause was exacted from Brown.

Again to state the obvious, a patent must be used before it can be *mis*used. The facts here demonstrate that there was no use and hence no misuse of the patent in the agreement. Nor was there any extension of any patent monopoly held by either party.

The only connection here to any patent is the happenstance (immaterial to the agreement) that some of the products sold by Visual to Brown under the agreement included a patented invention on which patent rights were held by a third party (Letraset) the manufacturer of the products.*

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* It should be borne in mind that the immunity and freedom created by law on goods sold by a patent owner is not a grant of any part of the patent monopoly. It is obviously no monopoly, but the antithesis, a *discharge* from monopoly, which equity creates as to any and all patents held by the manufacturer. See page 16, fn., above. Furthermore, that discharge is not created by agreement and is not transferable by agreement; it attaches to and remains with the goods. It is an incident of sale, not agreement.

Nothing in the agreement depended upon this happenstance—the parties and the agreement ignored it. Not a single provision in the agreement is in any way affected by the existence of the patent in suit. In short, the patent was *not* "significantly related" to the agreement.

Merely dealing with a patented product does not create the "significant relationship" requisite for patent misuse. A case in point is the *Ashlock* case, above.

There, lease agreements for patented machines, giving the exclusive right to use the machines, extended beyond and required payments beyond the expiration date of a patent. These lease agreements were accused of being a misuse of the patent. The U. S. Supreme Court had already ruled that a *patent license* which required royalty payments beyond the patent expiration was a misuse of the patent. This Court affirmed the holding that the Ashlock *lease* agreements distinguished from such improper *license* agreements, notwithstanding that both required payments beyond the expiration date. The deciding factor was the lack of a "significant relationship" between the lease agreements and the patent. This is a holding that making a patented product the subject of an agreement does not *ipso facto* create a "significant relationship" between the patent and the agreement. More is required for the creation of misuse.

In both *Ashlock* and the present case, the agreement dealt with *products* made by the person controlling the patent, and *not* with the patent itself or any rights under it. In both cases, there was no transfer of patent rights by the agreement and no use of the patent in the agreement. But the present case has even less basis for a charge of misuse than the *Ashlock* case, since in *Ashlock* the patent owner made the agreement, while here neither party was the holder of the patent rights or could exercise the power to exclude inherent in the patent.

In both cases, there was no misuse by the agreement.

Furthermore, the authorities cited by the lower court fail to support the holding of misuse. As shown in the discussion above of the *McCullough, Chamberlin, Waco-Porter* and *Berlenbach* cases, in each of these prior situations, one party to the offending agreement was either the patent owner or an exclusive licensee controlling the patent rights. This is not the case here, where *neither* party to the Visual-Brown agreement was the owner or controlled the patent.

In each prior situation, a patent monopoly held by one party was extended by the agreement. Here, neither Visual nor Brown had any patent monopoly to extend.

In each prior situation, the patent was directly and actively "used" by being licensed, conditioned upon the noncompeting restriction. Here no patent license was granted by the agreement.

The *Berlenbach* case is additionally expressly distinguishable.

There, the agreement concerned expressly and solely the patented product; here the agreement concerned any product bought by Visual from Letraset, and refers to no patent at all.

In *Berlenbach,* the patent owner was expressly required to patent the sole product of the agreement. No such provision exists here.

In *Berlenbach,* the patent owner was required to protect the licensee by suing infringers; the agreement required Berlenbach to "safeguard against any encroachment upon" the patented product. No such requirement exists here.

In *Berlenbach,* the agreement constituted an exclusive patent license. No patent license at all was accorded by the present agreement.

In short, the patent was intimately involved in the *Berlenbach* agreement. Here, the agreement is not conditioned in any way whatever upon any patent.

The Court below apparently concluded (and erroneously so), from the fact that the *Berlenbach* case inolved a sales distributorship agreement with an exclusive-dealing clause, that that decision necessarily applies here, because a distributorship agreement exists here also with such a clause. The District Court did not perceive the sharp distinction that the Berlenbach agreement *was a patent license agreement* and that it *directly* involved use of the patent, *by conditioning a license upon a non-competing clause.* It had been settled at least since *McCullough* that this was misuse. No such relation to the patent exists here.

The present case concerns a simple and lawful exclusive-dealing sales agreement, independent of (and certainly with no "significant relationship" to) any patent.

There has been no patent misuse by the Visual-Brown agreement. *Republic Molding Corp.* v. *B. W. Photo Utilities,* 319 F. 2d 343 (1963); *Geo. W. Ashlock Co.* v. *Atlas-Pacific Eng'g Co.,* 339 F. 2d 288 (1964).

IV. The Letraset-Visual Agreement Did Not Constitute Misuse

The Letraset-Visual sales agency agreement involves factors demonstrating absence of patent misuse similar to those already discussed above as to the Visual-Brown agreement, with additional factors further distinguishing from any possible misuse.

As shown above, Visual in 1963 purchased Brown's 1961 exclusive sales agency for Letraset dry transfer products. At this point Visual had complete selling rights as to Letraset products covered by the patent in suit.* Thereafter Visual and Letraset confirmed and extended that agency by the challenged Letraset-Visual agreement. The agreement was extended to include additional products unrelated to the patent and the equitable obligations between the parties were confirmed by the addition of Paragraph 8 by which Visual agreed to deal exclusively with Letraset.

* These were only the Instant Lettering dry transfer products.

Just as in the Visual-Brown agreement, the Letraset-Visual agreement was a normal and lawful exclusive-dealing sales agreement, made without concern with any patent, and having no significant relationship to any patent. In addition, in the Letraset-Visual agreement:

1. Visual was the *exclusive* sales agent.

2. Visual did not control the patent and was the party *restricted* by the challenged clause.

3. Visual's status as to the patent and as to any patented products was not changed by the agreement; it was already exclusive sales agent for the patented products, by the previous purchase of Brown's business, and continued in the same status under the accused agreement.

As shown below, these factors provide added bases justifying challenged Paragraph 8 of the Letraset-Visual agreement.

In the following sections, we show:

A. The agreement was lawful and proper when made;

B. The patent was not used in connection with the agreement;

C. The equitable balance favors the agreement;

D. The decisions relied upon by the Court below are inapplicable; and

E. In any event, no misuse existed when the action commenced.

A. The Agreement Was Lawful And Proper

The Letraset-Visual agreement was entirely lawful and proper when made; the challenged Paragraph 8 was merely an expression of an obligation required by equity and already existing under the 1961 Letraset-Brown sales agency agreement previously assigned to Visual.

Under the challenged clause, Letraset agreed to sell specified types of products only to Visual, and Visual agreed to buy all products of these types only from Letraset. This is another example of the classical "requirements" or exclusive-dealing contract. As discussed above, such exclusive-dealing sales agreements *per se* have uniformly been held lawful. *Tampa Electric Company* v. *Nashville Coal Company,* 365 U. S. 320; *Pick* v. *General Motors Corporation,* 299 U. S. 3; *Walker Distributing Co.* v. *Lucky Lager Brewing Corp.,* 323 F. 2d 1, 7 (9 Cir. 1963).

The present situation goes beyond the ordinary "requirements" arrangement. In the ordinary arrangement, the buyer agrees to buy all his requirements from the seller, but the seller may sell to others. Here, the buyer, Visual, is reaffirmed as *exclusive* sales agent for these products. This not only justifies, but *requires* Visual to undertake the obligations of challenged Paragraph 8.

Thus, by virtue of the exclusive nature of Visual's sales agency, Letraset's entire United States business is dependent upon Visual's efforts; the only Letraset products to reach the U. S. market are those which Visual sells. Should Visual's efforts be slack, Letraset's business would suffer. Should Visual substitute a competing product for Letraset's, then Letraset's sales would diminish. In short, Letraset is wholly dependent upon Visual for U. S. sales of Letraset products.

For this reason, equity imposes upon such an exclusive agent or distributor a fiduciary-like obligation. Such an agent or distributor is, by rule of law, required to use his best efforts on behalf of his manufacturer. This rule is expressed in *Corpus Juris Secundum* on Contracts, Volume 17A, page 287, footnote 41:

> "An implicit promise of every exclusive distributorship agreement is that manufacturer will do nothing to impair efforts of distributor to sell the manufacturer's product and in return distributor promises that he will

> use his best efforts to promote the sale of manufacturer's product."

The requirement to exercise best efforts to sell Letraset's products, of course, carries with it the duty *not* to do anything which would injure such sales, such as substitution of competing products which necessarily would detract from Visual's sales of Letraset products.

> "the law will imply an agreement to refrain from doing anything which will destroy or injure the other party's right to receive the fruits of the contract." (17A C.J.S., p. 286)

By appointing Visual its exclusive sales agent for the basic agency products, Letraset placed its full faith and trust in Visual, and agreed to deal exclusively with Visual as to these products. Equity requires no less good faith from Visual. To act in that good faith, Visual must buy all its requirements of the basic agency products from Letraset.

Hence Visual's status as *exclusive* sales agent, as a matter of law, requires Visual to refrain from dealing in competing products. Visual is actually required by equity to do essentially what Paragraph 8 says. It would be contrary to equity for Visual to do otherwise.

Accordingly, there has been no violation of public interest, no inequity, no moral or legal wrongdoing, which should impel this Court to deprive plaintiffs of their patent rights, and entitle a piratical infringer to enjoy with impunity the fruits of his piracy.

In balancing the equities (*Republic Molding,* above), this Court should not find the challenged Paragraph 8 and the spirit and intent with which it was made, so blameworthy as to entitle defendants to "blithely continue to practice the arts of piracy" and to obtain a "continuing immunity from suit'' (*Gray Tool Co.* v. *Humble Oil & Refining Co.*, 186 F. 2d 365, 367.)

For this reason alone, the judgment below should be reversed.

B. The Patent Was Not Used In Connection With the Agreement

What was said above as to the Visual-Brown agreement on this point applies with equal force to the Letraset-Visual agreement: the latter agreement, like the former, was made in the usual course of business, independently of any patent. The existence of any patent was a mere coincidence. Neither the parties *nor the agreement* was concerned with the patent. Thus:

1. No patent is referred to in the agreement, in contrast to *Berlenbach* and the other cited cases, where the agreement directly concerned the patent.

2. The patent owner was not compelled to procure a patent, in contrast to the *Berlenbach* case.

3. The patent owner was not compelled to ''safeguard against encroachment'', in contrast to the *Berlenbach* case.

4. There is no distinction in the agreement between patented and non-patented products. The agreement is merely to buy and sell products made by Letraset, without reference to whether any product is patented or not. The challenged provision of the agreement was neither affected by nor motivated by the existence of the patent in suit.

The agreement by itself gave Visual no greater or less immunity under the patent. If Visual made or used or sold non-Letraset products covered by the patent it would have infringed. Only by purchase of goods made by Letraset did any immunity arise. The immunity was vested *in* *the goods,* and was *not created by the agreement.* This shows the independence of the *agreement* and the patent.

Nor was the exclusive-dealing provision exacted even for the right to sell patented products. This is clear from the fact that the selling right was accorded to Brown in 1961 by the 1961 Letraset-Brown agreement and was transferred to Visual in 1963 by the Visual-Brown agreement, so that Visual had that selling right *before* the 1963 Letraset-Visual agreement containing the challenged Paragraph 8. The 1963 Latraset-Visual agreement specifically confirmed the existence of that prior selling right (R. 569-70). In short, the exclusive-dealing provision was not exacted by the leverage of the patent or even the right to sell the patented products, but was again independent of the patent.* In contrast, in *Berlenbach* the patent license was given only on condition that the exclusive-dealing be observed.

The agreement and patent are therefore unrelated. None of the terms of the agreement is conditioned in any way upon the patent in suit, or even its existence.

In short, the patent was: (1) not an active instrument in forcing the agreement on Visual, and (2) not used at all in making the agreement.

Every misuse case includes either a patent license on a condition against public policy, or a violation of the anti-trust laws by use of a patent. Neither exists here: The exclusive-dealing clause of Paragraph 8 is lawful, is required by equity, and was not exacted as a condition for any rights related to the patent, whether license rights or selling rights for the patented products.

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* This independence is also shown by the necessity of a separate agreement when Letraset desired to transfer the patent rights to Visual. Obviously, the parties considered the selling rights to be distinct from the patent rights; the selling rights were dealt with in the 1961 Letraset-Brown and 1963 Letraset-Visual agreements, while the patent rights were later dealt with in the 1964 Letraset-Visual agreement (R. 578).

The happenstance of concurrent ownership of the patent rights and participation in the exclusive-dealing sales agreement does not create a causal relation between the two, and such a causal relation is essential to a holding of misuse.

Certainly it cannot be said that a significant relationship exists between a patent and an agreement which not only has no mention of that patent, but whose provisions are not affected in any way by even the existence of the patent, much less the scope of the patent.

Again there is no "significant relationship" between Paragraph 8 and the patent, so that no misuse exists (*Republic Molding* and *Ashlock* cases, above).

C. The Equitable Balance Favors The Agreement

Congress has made clear the borderline between proper and improper exclusive-dealing provisions, regardless of the presence or absence of patents. Section 3 of the Clayton Act, 15 U.S.C. 14, states:

> "It shall be unlawful . . . to . . . make a sale or contract for sale of goods . . ., **whether patented or unpatented,** . . . on the condition, agreement, or understanding that the . . . purchaser thereof shall not use or deal in the goods . . . of a competitor . . ., **where the effect** of such . . . sale or contract for sale or such condition, agreement or understanding **may be to substantially lessen competition or tend to create a monopoly in any line of commerce.**"

Congress has thus recognized (and legislated) that it makes no difference whether the goods are patented or unpatented, so far as exclusive-dealing is concerned. Exclusive-dealing is improper *only* where there is a *substantial* lessening of competition or a *substantial* tendency to monopoly (neither of which has been raised here), regardless of whether patents are involved or not. The decided cases are to the same effect.

Exclusive-dealing clauses like Paragraph 8 are *per se* proper, under the *Lucky Lager, Pick* and *Tampa Electric* cases discussed above. They are no less proper because one party happens to hold patent rights.

Merely because General Motors has exclusive dealing agreements with its dealers on Chevrolet automobile parts (as in *Pick* v. *General Motors,* above), it does not follow that all of General Motors' patents on such parts should be nullified.

To hold otherwise is to penalize a patent owner for doing what is fully proper for a non-owner, because a patent is incidentally owned.

The inequity in this is obvious. The effect upon the public is the same whether a patent is owned or not.* If there is any monopoly created by such exclusive-dealing clauses, it is not created by or because of any patent, and there is no extension of any patent monopoly. For a patent owner to be penalized for exactly such agreements permitted to a non-owner can be justified only where an important aspect of the philosophy of the patent system is violated. This requires some grossly inequitable *use of the patent,* apart from the exclusive-dealing itself.

Stated differently, a clause which is *not* against the public interest for a non-patent holder does not reverse its character to become contrary to that interest merely because a patent is held by one party to the agreement. Since the same restraints on competition would exist whether or not the agreement is that of a non-holder or a holder, something more than mere holding of patent rights must be required for misuse in such situations. There must be *an inequitable use* of the patent itself, beyond the mere happenstance that a patent is owned (*Ashlock* case, above). Here, the patent was not involved in the agreement at all, neither used nor misused.

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* Just as in the *Republic Molding* and *Ashlock* cases.

Moreover, no extension of any patent monopoly was obtained by Visual, the party being charged with misuse.

At the time the agreement was made, Visual held no part of the patent monopoly and it received none by the agreement; the agreement reaffirmed Visual's prior right to sell *whatever Letraset made,* without concern as to any patents, and independent of the patent in suit. Visual therefore had no patent monopoly; it had no power to use any patent to exclude others from making, using or selling anything. Thus having no patent monopoly, Visual enlarged none.

Also, the supposed misconduct was not Visual's. Under the challenged clause, Visual was the party bound. It is Visual's operations which were restricted. Visual did not benefit from the clause, but was obligated by it. Moreover, Visual was not then the owner of the patent rights involved here. The acts challenged here were not those of Visual; rather Visual was at worst a passive party, and Visual should not be penalized here for such acts.

1. It is contrary to equity to penalize small companies forced to use exclusive agents for acts permitted to larger integrated companies.

To penalize Visual here for supposed misuse is to discriminate against small companies which cannot set up distribution facilities in their own organizations, and as a result need to employ independent sales agents.

If Visual and Letraset were merely branches of the same organization, obviously no agreement would be needed and no misuse would be present; a company has full freedom and discretion to decide whether it will handle products competitive with its own patented products and generally will not do so. The public interest in promoting new products is thereby served.

Manufacturing companies too small to have their own distribution set-ups must employ other agencies to carry out this essential function; such agencies, in general, demand exclusiveness, in order to justify the effort and expense of interesting the market in and distributing a new product, such as here. Unless some reciprocal exclusiveness is received, the manufacturer is entirely at the mercy of the exclusive agent; if the agent handles competing goods, the manufacturer loses sales, which cannot be made up by sales to others, since the agency is exclusive.

It is in situations like this that the Letraset-Visual type of agreement is vital to the small manufacturer whether or not patents are owned. The larger manufacturer has no problem; it can handle its own distribution without agreements.

In effect, the sales agent is the distribution branch of the manufacturer, under contract rather than by being in the same organization. The effect on the public is the same, whether the sales agent is a captive organization or an independent contractor. The same rules should apply to both. Those rules, in all equity, should be construed to hold no misuse here, and for these reasons also, the judgment appealed from should be reversed.

D. The Decisions Relied Upon By The District Court Are Inapposite

The *McCullough, Chamberlin, Waco-Porter* and *Berlenbach* decisions have been discussed above and in relation to the Visual-Brown agreement. This Court's attention is respectfully directed to pages 20 to 24 above on this point. These decisions are even more remote from the Letraset-Visual agreement.

In each of these cases there was a direct and substantial relationship between the patent in suit and the offending clause. The patent was a direct and integral part of the agreement. It was not only directly referred to, but a portion of the patent monopoly was transferred by the agreement itself. That transfer was the consideration for the offending clause, which thereby extended the monopoly held by the grantor, and created the misuse of that same patent.

No such situation exists here.

Letraset was the holder of exclusive rights under the patent, but it was barred by the very grant to it from extending any further licenses. In the 1962 agreement with Meyercord, by which Letraset received its rights under the patent in suit, Paragraph 2 provides (R. 558):

> "It is expressly understood that the herein granted exclusive license to LETRASET shall not include the right to grant sublicenses to others. . . ."

Letraset abided by that limitation of its rights under the patent. It deeded no license at all to Visual.

In the first place, as already shown, whatever rights Visual had as to any products covered by the patent it already had prior to the challenged agreement: Brown had obtained exclusive selling rights to all such products in 1961, and had sold those rights to Visual in April, 1963 by the Visual-Brown agreement. The Letraset-Visual agreement of June, 1963 therefore transferred no rights (even selling rights) to those products; Visual already had those rights previously.

In the second place, no patent license was granted; the Letraset-Visual agreement was not a license under a patent at all.

The challenged agreement defines "basic agency products" as certain products which Letraset "manufactures and sells" (R. 569). It is these products for which Visual was appointed "exclusive agent" (R. 569). It is clear that the agreement deals only with *Letraset-manufactured* products without regard to any patent. It does not deal with any other products, made by others, even though covered by the same patent.

This is to be distinguished from a license under patents.

A patent gives its owner the right to exclude others from making, using or selling the patented invention (35 U.S.C. 154). "Whoever without authority makes, uses or sells any patented invention within the United States during the term of the patent therefor, infringes the patent" (35 U.S.C. 271(a)). A patent license is the grant of permission to do what otherwise would be an infringement of the patent. Visual's sale of Letraset-manufactured products could not be an infringement of any patent right owned by Letraset; once Letraset *sold* its product, that product is *discharged from any liability* under the patent, and cannot thereafter be an infringement of the patent (Deller's *Walker on Patents,* 2nd Ed., Vol. 4, Sec. 386; *Adams* v. *Burks, supra*). It was *not the agreement* which abnegated infringement, *but the act of purchase* from the patent holder, whether or not there were any agreement. Hence, no patent license grant was needed or contemplated in the dealings between Letraset and Visual. Any such grant was unnecessary, and the parties did not negotiate for or consummate it.

Viewing the agreement as a whole* it obviously and clearly is an ordinary exclusive sales agreement.

The word "license" is nowhere mentioned. No patent or patent right is mentioned.

None of the recitals refers to any patent, or any desire of either party to license or to acquire a license. Nowhere in the agreement does it say that Letraset licenses any patent or that Visual accepts any license. No provision in the patent depends upon whether or not the patent in suit even exists.

In short, there was no license grant.

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* A contract must be interpreted as a whole. It is not proper to segregate a single paragraph or clause, such as Paragraph 8, to construe it apart from the rest of the agreement. Corpus Juris Secundum on Contracts, Vol. 17A, page 107, Section 297.

In the third place, no transfer of patent license rights could be impliedly construed under the agreement. Visual needed no such rights in order to to carry out the clear intent of the agreement, that Letraset would sell its goods to Visual and that Visual would distribute them throughout the United States. Once Letraset sold the goods to Visual, that act of sale, without more, *discharged* those goods (but no others) from any liability under the patent. (*Adams* v. *Burks, supra;* Deller's *Walker on Patents, supra.*) No further grant of rights was necessary to permit Visual to carry out its agreement to distribute those goods, and hence none would be implied. As stated in Corpus Juris Secundum, Vol. 17A on Contracts, at page 291:

> "where a contract is clear and seemingly complete, the courts will not and cannot revise, extend, or enlarge it by implication."

This is reinforced by the later, January, 1964, assignment agreement between those same companies. The purpose of the later agreement was to permit Visual to enforce the patent actively against infringers. If the first agreement were already an exclusive license under the patent, then no later agreement was necessary: Visual could have enforced its exclusive rights under the patent without more (*Independent Wireless Telegraph Co.* v. *Radio Corporation of America,* 269 U. S. 459 (1926)). This further evidences the intent of the parties that the original Letraset-Visual agreement was *not* a patent license, but merely a commercial sale agreement.

That intent governs the interpretation of the agreement. To find in this agreement any license under un-named patents is to distort its meaning beyond any such intent.

It is therefore clear that no patent (or even selling) rights were given in exchange for the exclusive-dealing clause: No patent rights at all were given, and the selling rights had been previously given, without regard to the challenged clause.

The present agreement is thus *not* a patent license but a proper exclusive-dealing contract, independent of any patent. It was not motivated by any patent, nor does it constitute an enlargement of the monopoly of any patent. It thereby distinguishes from the *Berlenbach* case and the other decisions relied upon by the Court below, all of which dealt expressly with patent licenses and enlargement of the monopoly of patents directly involved in those agreements. Those authorities do not support a holding of misuse here.

E. There Was No Misuse When The Actions Started

The Court below seemed to think that the date of filing each complaint was a critical date, as of which existence of misuse should be determined (Conclusion XXIV, p. 10 above). That is shown to be incorrect below at pages 43 to 48, but even if this were correct, the lower Court was in error in holding that misuse existed at that time.

The first complaint was filed in February, 1964. A month earlier, in January, 1964, Letraset had assigned to Visual the Meyercord-Letraset agreement under which Letraset had derived its interest in the patent in suit. This assignment was seven months after the challenged Letraset-Visual agreement was made, and independent of it.

Therefore, when the complaint was filed, Visual was an exclusive licensee of Meyercord (in a limited field) under the patent, and was holder of the patent monopoly in question. Letraset no longer held any of these patent rights. Even if Paragraph 8 could be interpreted as giving Letraset some form of monopoly, it was then no longer possible for the clause to be an *extension* of the patent monopoly. *Letraset* then had no patent monopoly to extend and any assumed monopoly of Paragraph 8 was then separate from any patent monopoly. Letraset was then in the same position as was held proper in the *Lucky Lager, Pick* and *Tampa Electric* cases above; it was merely a non-patent-holding manufacturer with an exclusive-dealing agreement with a distributor. No misuse of the patent then existed as to Letraset.

As to Visual, Paragraph 8 obligated it not to sell products competing with the "basic agency products" made by Letraset. When the complaint was filed, to the extent that those products were covered by the patent, Visual was in effect obligated not to compete with *its own* patent.

This was no extension of *Visual's* patent monopoly. That patent monopoly authorizes Visual *to prevent others* from using Visual's patented invention. To extend that monopoly requires *preventing others* from doing something *more* than using Visual's invention.* But here there was no restriction on *others* at all; the only restriction was on Visual itself; and even this restriction is more apparent than real.

The whole philosophy of our patent system is directed toward advancing science and the useful arts, for the purpose of making new inventions available to the public. This requires that new inventions be exploited effectively by manufacture and sale; only in this way does the public benefit. Following Visual's acquisition of the patent rights, Paragraph 8 directly carried out this requirement: it induced Visual to exploit Visual's *own* patented inventions, rather than competing products outside the patent.** This expresses the most natural of business purposes—to exploit one's own special patented invention rather than competitive unpatented ones. No public purpose is served, and no

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* An agreement not to infringe a patent is clearly not a misuse of the patent, since it merely confirms the patent monopoly without extending it (*Steiner Sales Co.* v. *Schwartz Sales Co.*, 98 F. 2d 999, 1011, 10 Cir. 1938; *United Lens Corp.* v. *Doray Lamp Co.*, 93 F. 2d 969, 973, 7 Cir. 1937).

** So far as products within the patent are concerned, Paragraph 8 merely reaffirms the patent monopoly, and no misuse exists. See decision cited in the preceding footnote.

business purpose is aided, by forcing a patent owner to exploit such competitive products rather than his own patented product, and no court or statute has gone so far. On the contrary, the public interest would be defeated by depriving the public of the full benefit of the patented product.

At the time the actions were started, the agreement was a lawful requirements contract between a manufacturer and its distributor. There was no extension of any patent monopoly by either Letraset or Visual. No precedent has gone so far as to suggest that such an arrangement could be construed as misuse of a patent.

Hence the January, 1964, transfer of patent rights cured any possible misuse then existing. The District Court was clearly erroneous in holding that there was misuse when the two actions were started, in February, 1964, and June, 1964.

V. Any Possible Misuse Has Been Terminated And Dissipated

While the foregoing is believed fully dispositive of this case, in establishing that patent misuse never arose, or at least was terminated by January, 1964, before either action was begun, nevertheless, should this Court disagree, it is submitted that reversal of the judgment below is required because of termination of the accused misuse and any possible effects of it, before the judgment appealed from.

The consequence of patent misuse, where it exists, is not to render the patent void, but merely to neutralize it by rendering it unenforceable for the period of misuse, until the misuse terminates and its effects are dissipated. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 493.

This Court has recognized that, where the offending clause of the agreement constituting the misuse both has been terminated and has never been enforced, there have been no effects to dissipate, so that the termination ends the disability imposed by misuse. In the *Berlenbach* case cited above, this Court said (329 F. 2d at 785):

> ". . . we have said that non-enforcement *and* voluntary relinquishment of an illegal clause will overcome the defense of patent misuse . . ."*

It is uncontested that the challenged Paragraph 5(c) of the Visual-Brown agreement and Paragraph 8 of the Letraset-Visual agreement were never enforced (R. 681, 778); these clauses were actually disregarded by all the parties involved, Brown, Visual, and Letraset. Thus, Brown has handled competing products with the full knowledge of Visual and Letraset and without objection from them (R. 681-2). These provisions have never had any effect whatever.

Moreover, in October, 1964,** Visual voluntarily relinquished and waived Paragraph 5(c) of the Visual-Brown agreement (R. 682), and in March, 1965, Letraset similarly relinquished and waived Paragraph 8 of the Letraset-Visual agreement (R. 778). The District Court found that the clauses had terminated (Findings XVI, XIX, R. 835, 836).

The present situation therefore fully satisfies this Court's statement in the *Berlenbach* case, just quoted. The relinquishment of the clauses *plus* the fact that they never had any effect immediately eliminated any misuse which may have existed; there were no "effects" to dissipate, and enforceability of the patents should have been restored at once.

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* Emphasis quoted; the *Berlenbach* case went on to hold that non-enforcement *alone* would not suffice; both non-enforcement and relinquishment are required.

** Before the motion for summary judgment was even brought.

The District Court failed to follow this rule.* Instead of dismissing the defense and correspondingly denying the motion, the District Court ignored this point and granted the motion. In this the District Court was apparently led into error by a misconstruction of the *General Excavator Company* v. *Keystone Driller Company* case, cited in its Conclusion XXIV.

The District Court apparently believed that if misuse existed at the time the complaint was filed (as it erroneously held) it was required to dismiss the complaint. It ignored the termination of the misuse and the general rule that a court of equity takes cognizance of all factors up to the time of decision:

> "It is axiomatic that a court of equity must determine the issues before it as of the day of determination.[33] The chancellor must adjudicate the equities as he finds them *on the day in which he makes his decision.* A change in conditions may, even if it does not call for total denial of relief, affect the quantum of relief. Nay, more, *it may call for relief in the light of changed conditions* which would not have been warranted before.[34]"** (*Brooks Bros.* v. *Brooks Clothing, etc.,* 60 F. Supp. 442, 456, SD Cal. 1945, affirmed on opinion below, 158 F. 2d 798, 9 Cir. 1947, cert. den. 331 U. S. 824)

See also *Rodgers* v. *United States,* 158 F. Supp. 670, 680 (SD Cal. 1958), affirmed 267 F. 2d 79 (9 Cir. 1959) and *Standard Oil Co.* v. *United States,* 283 U. S. 163, 181-2 (1931).

The District Court also ignored the established rule that the specific defense of patent misuse is determined as of

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* Notwithstanding the *Waco-Porter* case, cited by the Court below, which directly denied the same defense raised here, upon termination of the supposed offending conduct. See page 22 above.

** Footnotes, citing cases, omitted.

the time of decision, and overlooked the injury to plaintiffs in denying relief for defendants' infringing activities which started *even before the alleged misuse started.*

The authorities are uniform that, in the case of patent misuse, the Courts should consider the situation as of the time of decision. While no decision specifically on this point has been found in this Circuit (apart from the statement of the general rule in the *Brooks* case), the Fourth, Sixth and Seventh Circuits have clearly so held.

In *Campbell* v. *Mueller,* 159 F. 2d 803, 806, 807 (6 Cir. 1947), a clause violating the anti-trust laws was cancelled *during the trial.* The Court of Appeals held that the issue of misuse because of that clause should be determined *as of the date of decision,* and gave full consideration to the cancellation of the challenged clause. The critical time is stated to be "at the time of the decision" of the lower court (159 F. 2d at 807). To the same effect, see *White Cap Co.* v. *Owens-Illinois Glass Co.,* 203 F. 2d 694, 698, 6 Cir. 1953.

In *Westinghouse Elec. Corp.* v. *Bulldog Elec. Prod. Co.,* 179 F. 2d 139, 145 (4 Cir. 1950), the suit was started in 1943. A clause constituting misuse was cancelled in 1948. Thereafter (like here) the lower court granted summary judgment on the basis of "the clean hands doctrine" (i.e., misuse). The Court of Appeals reversed, without deciding whether the clauses were illegal, because any possible illegality was purged by the elimination of the offending clause. On the undisputed facts in the present case, that the challenged clauses were terminated before the lower Court's order (and in one instance even before the motion for summary judgment had been brought), and had never been enforced, this *Westinghouse* case is direct authority for reversing the judgment below, even if misuse were found to exist.

Similarly in *Eastern Venetian Blind Co.* v. *Acme Steel Co.,* 188 F. 2d 247, 253-4 (4 Cir. 1951), it was held that fully abandoning the misuse *prior to the date of trial* was sufficient to overcome the defense based on that misuse.

In *Flexwood Co.* v. *Faussner & Co.,* 145 F. 2d 528, 541-2, the Seventh Circuit Court of Appeals in a patent infringement suit reviewed an exclusive patent license agreement to make and sell certain products, where, after cancellation for cause or otherwise, the licensees were prohibited from making, selling or distributing any product similar to the materials covered by the agreement (except for liquidation of inventories). The Court found that this clause, while assumed illegal under Illinois law, did not "so soil the hands of the plantiffs so that they may not, so long as the restriction remains in effect, prosecute a suit for infringement" of the licensed patents. The Court went on to hold that elimination of the restriction *even after argument before the Court of Appeals* cured whatever defect there was. The Court said at page 542, as to the new contract eliminating the controverted restrictions:

> "We see no reason why we should not consider the new contract. We understand that **a reviewing court may always consider evidence presented to it that shows that** a case has become moot or that a cause of action or **a defense has ceased to exist.**"

In all the foregoing cases, events after the complaint was filed, and even after trial, were considered in ruling on a misuse defense. Under these authorities, the lower court here committed error in failing to hold that the alleged misuse had been terminated and dissipated, and consequently it should have denied summary judgment.

The sole authority indicated by the District Court for its Conclusion XXIV that "Misuse is determined as of the date of filing the complaint" is *General Excavator Co.* v. *Keystone Driller Co.,* 62 F. 2d 48 (6 Cir. 1932), affirmed on other issues at 290 U. S. 240. This case is not in point, and should be limited to its own facts, which were extreme.

It preceded the more pertinent authorities discussed above, which, to the extent *General Excavator* may be applicable, have distinguished and superseded it.*

The *General Excavator* case involved essentially a fraud upon the Court. The patent owner paid a prospective witness to suppress evidence of prior public use which would have invalidated his patent. As a result, the patent was sustained in a prior judgment. The owner then presented the tainted judgment to the Court in the *General Excavator* case as support for the validity of the patent. When the facts came out, the patent owner asked the Court to disregard the prior events, and to consider the suppressed evidence as though it had not been suppressed. The Court was properly shocked at this brazenness, and refused, dismissing the case for unclean hands.

That decision was necessitated by the specific facts of the case, but it is not a precedent requiring arbitrary dismissal in every instance where the Court may find inequitable conduct preceding the complaint. This Court must balance the equities in relation to the specific acts of the parties, and exercise its equitable discretion in each case (*Republic Molding* case, *supra*).

> "The defense of misuse of patents, like other unclean hands defenses, is not, as defendant seems to think a matter of the letter of bare bones facts; it is a matter of their spirit, the intent with which they are done." (*Gray Tool Co.* v. *Humble Oil & Refining Co.*, 186 F. 2d 365, 367).

Here, as in *Gray Tool,* plaintiff submits that

> "defendant, in seeking a continuing immunity from suit, while it blithely continues to practice the arts of

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* The *Campbell* decision is by the same Court and, being later, either overrules *General Excavator* so far as patent misuse is concerned, or else establishes that *General Excavator* does not apply to patent misuse issues.

piracy, and in making broad its phylacteries, while pointing its finger at plaintiff as unclean, is not a Daniel come to judgment, but Satan quoting scripture to his purpose." (186 F. 2d at 367-8)

As said in *Gray Tool* (p. 368):

> "In such a situation, the court, instead of hurrying plaintiff out of court, his charges unheard, should have proceeded with the trial . . .
>
> "The principle invoked by defendant and erroneously applied by the trial court is simple and plain, and, as properly applied, sound. The fallacy in defendant's statement, which the court below failed to see, is that, though in most of the cases defendant cited and relied on, the question of misuse was decided upon a hearing as a question of fact, the defendant presented it as though the findings were made as matter of law."

The Court below ignored these basic principles, and committed clear error in failing to give effect to the termination of the challenged clauses.

Here, even assuming existence of patent misuse, the good faith and proper intent of plaintiffs have not been disputed. No fraud exists. On the cited authorities the alleged misuse has been cured.

Hence, summary judgment should be reversed.

VI. Dismissal Of The Patent Causes Was Improper Regardless Of Any Supposed Misuse

Even should this Court affirm the lower's court's Finding XXII and Conclusion XXV, that both plaintiffs misused the patent during the periods the respective controversal clauses were in effect, this does not justify dismissing the patent causes of action in the two complaints consolidated here, as to infringement *before* those periods.

The agreements in question were made April 15, 1963 and June 19, 1963 respectively. No charge of misuse has been made as to any earlier acts, and there was no earlier misuse.

The acts by defendants complained of here, occurred *prior* to these agreements, as well as during the period of the agreements. The record is unequivocal that at least some of the accused infringing acts occurred as early as January, 1963. In answer to the following Request for Admission No. 42, defendants gave an unconditional "Yes" (R. 432, 448):

Request No. 42.

"a. The following two-sheet document marked Document B, shows the production of dry transfer sheets by Polycraft, Inc. for Instantype, Inc., as reflected by the invoices of Polycraft, Inc., and subject to correction should error appear.

b. The first column shows the invoice date.

c. The second column shows the corresponding invoice number.

d. The third column shows the corresponding number of sheets invoiced.

e. The fourth column shows the price of the sheets of the preceding column, in dollars and cents."

The Document B referred to, at page 2, last few lines (R. 436), shows six separate invoices for Instantype sheets in January 1963, February 1963, March 1963 and April 1963. These are the exact goods accused of infringement (Pltfs. Ans. to Defts. Interrog. No. 2, R. 435-6).

Requests Nos. 43 and 44 reaffirm sales of such sheets (R. 448):

Request No. 43:

"The sheets referred to in Request No. 42 carried the trademark Instantype and were sold by Polycraft, Inc. to Instantype, Inc."

Response:

"Yes."

Request No. 44:

"The sheets referred to in Request No. 42 were sold by Instantype, Inc. or Mico-Type, Inc., as the case may be."

Response:

"As shown on the invoices, the sales were made to Instantype, Inc."*

All these infringing acts occurred *before* April 15, 1963, when the Visual-Brown agreement was made, and before the beginning of the period of misuse found (mistakenly) by the District Court, namely, the period the challenged clauses were in effect (Finding XXII, R. 836). These infringing acts were committed at a time when plaintiffs' hands were unquestionably "clean", at a time when defendants had no basis to assert that any supervening public policy against misuse excused defendants' piracy.

Plaintiffs sought relief for these unexcused (and inexcusable) acts by defendants. The judgment appealed from denies plaintiffs such relief, solely on the basis of the later agreements asserted to constitute patent misuse, and unrelated to those earlier piratical acts by defendants.

Misuse, if it exists, may justify denial of relief during the period it exists. The law is settled that relief is *not*

* Since this response fails to deny the Request, the Request stands admitted (F.R.C.P., Rule 36).

denied after the misuse is ended and its effects dissipated (*Morton Salt* case, above). There is no justification for denying relief for the period *prior* to the asserted misuse, any more than for the period *subsequent* to the asserted misuse.

The gross inequity of this is apparent. For that prior period, by the Court's own finding, there was no public interest to be protected; the defendants' infringement was without any color of excuse.

At most, the lower court might have denied recovery for damages for the period of the misuse it found; it erred in dismissing the causes of action entirely.

The judgment should be reversed and the complaint reinstated for this reason also.

VII. The Judgment Should Be Corrected As To Meyercord

Regardless of other rulings by this Court in this case, Finding XXII and Conclusion XXV should be reversed as to plaintiff Meyercord, as clearly erroneous and unsupported by any evidence. *Meyercord* did not commit any acts which could be found to be misuse, and hence *Meyercord* did *not* misuse the patent.

Meyercord's total activity in the present situation was to grant an exclusive patent license in a limited field to Letraset, under the July 20, 1962 Meyercord-Letraset agreement (R. 556) and later to consent to assignment of that agreement to Visual (R. 584).

Meyercord did nothing else. In particular, it was neither a party to nor a participant in arranging the two agreements here in issue or the controverted clauses thereof. Meyercord is not even shown to have had knowledge of these clauses.

It was therefore clear error to hold that *Meyercord had misused* the patent (Finding XXII), and this error is highly prejudicial to Meyercord.

Thus, as already mentioned, Meyercord's license to Letraset was for a limited field; Meyercord retained full rights under the patent, outside that field. An unwarranted holding that Meyercord had misused the patent would, under *stare decisis,* be available as a defense to an infringer in Meyercord's retained fields, and would jeopardize Meyercord's ability properly to protect against invasion of its rights.

The judgment appealed from should, at the very least be corrected to avoid that inequitable and improper jeopardy to Meyercord's rights. Finding XXII and Conclusion XXV should be stricken as to Meyercord.

VIII. Conclusion

It is submitted that

1. Neither agreement constituted patent misuse, particularly because there was no relationship (and hence n significant relationship) to any patent and no extension o any patent monopoly.

2. Any possible misuse was cured (a) by the time th complaints were filed, or (b) by the non-enforcement an voluntary relinquishment of the challenged clauses befor the order granting summary judgment.

3. There were no acts by Meyercord which could con stitute patent misuse by it, at any time.

4. It was error to grant summary judgment on the pa ent causes of action even if there had been misuse ar even if it had not been cured, because of infringement l defendants before the accused agreements were made.

Accordingly, the judgment below should be vacated and the consolidated actions remanded for trial on the merits.

Respectfully submitted,

Morris Relson,
Attorney for Appellants.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Morris Relson,
Attorney for Plaintiffs.

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